

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2002

Our discussion and analysis of the Tennessee Housing Development Agency's financial performance provides an overview of the agency's financial activities for the year ended June 30, 2002. Please read it in conjunction with the agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Cash and cash equivalents decreased \$93.3 million
- Mortgage loans receivable increased \$36.5 million
- Investments increased \$33.0 million
- Bonds and notes payable decreased \$47.0 million
- Total liabilities decreased \$13.3 million
- The agency's total net assets decreased \$4.2 million

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and notes to the financial statements. The statement of net assets provides financial information on the overall financial position of the agency at June 30, 2002. The statement of revenues, expenses and changes in net assets summarizes the results of operations over the course of the fiscal year. The statement of cash flows provides relevant information about the agency's cash receipts and cash payments during the fiscal year. The notes to the financial statements provide useful information regarding the agency's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. The agency's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus.

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FINANCIAL ANALYSIS OF THE AGENCY

Net Assets. The following table focuses on the changes in net assets between July 1, 2001 and June 30, 2002 (expressed in thousands):

	<u>2002</u>	<u>2001</u>
Current assets	\$ 356,230	\$ 483,400
Capital assets	5	11
Other noncurrent assets	<u>2,014,871</u>	<u>1,905,188</u>
Total assets	<u>2,371,106</u>	<u>2,388,599</u>
Long-term liabilities	1,733,060	1,710,108
Other liabilities	<u>268,047</u>	<u>304,289</u>
Total liabilities	<u>2,001,107</u>	<u>2,014,397</u>
Invested in capital assets	5	11
Restricted net assets	359,618	367,091
Unrestricted net assets	<u>10,376</u>	<u>7,100</u>
Total net assets	<u>\$ 369,999</u>	<u>\$ 374,202</u>

The amounts shown above for the year ended June 30, 2001 are restated to be comparable to the June 30, 2002 amounts which are reported under new accounting standards. See Note 1.d. to the financial statements for additional information.

The agency's total net assets decreased \$4.2 million in part as a result of the following:

- Operating income for the year ended June 30, 2002 was \$41.2 million.
- Payment to primary government – A payment was authorized from the agency's Asset Fund reported in the Operating Group component in the amount of \$35.4 million under Chapter 825, Public Acts of 2002 and section 9. (2) of Chapter 827, Public Acts of 2002 for the sole purpose of meeting the requirements of funding the operations of the primary government for the fiscal year ended June 30, 2002.
- Grant expenses exceeded grant revenues by \$10.0 million because of grant programs that were funded by the agency.

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Changes in Net Assets. The following table summarizes the changes in revenues, expenses and changes in net assets between fiscal years 2001 and 2002 (expressed in thousands):

	<u>2002</u>	<u>2001</u>
Operating revenues		
Mortgage interest income	\$ 107,134	\$ 108,862
Investment income	45,131	54,437
Other	9,908	7,740
Total operating revenues	<u>162,173</u>	<u>171,039</u>
Operating expenses		
Interest expense	102,413	107,466
Other	18,569	16,553
Total operating expenses	<u>120,982</u>	<u>124,019</u>
Operating income	<u>41,191</u>	<u>47,020</u>
Nonoperating revenues (expenses)		
Grant revenues	127,611	62,309
Grant expenses	(137,638)	(70,938)
Payment to primary government	<u>(35,367)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(45,394)</u>	<u>(8,629)</u>
Changes in net assets	<u><u>\$ (4,203)</u></u>	<u><u>\$ 38,391</u></u>

The amounts shown above for the year ended June 30, 2001 are restated to be comparable to the June 30, 2002 amounts which are reported under new accounting standards. See note 1.d. to the financial statements for additional information.

- The change in net assets decreased by \$42.6 million, from \$38.4 million at June 30, 2001 to \$(4.2 million) at June 30, 2002. The decrease primarily resulted from a payment of \$35.4 million to the primary government from the agency's Asset Fund reported in the Operating Group component.
- Total operating revenues decreased by \$8.9 million, from \$171.0 million at June 30, 2001 to \$162.1 million at June 30, 2002. The increase in the fair value of investments was \$9.5 million less than in the previous fiscal year which impacted the total operating revenues.
- Federal grant revenue and expenses increased by \$65.3 million, from \$62.3 million at June 30, 2001 to \$127.6 million at June 30, 2002. The agency was awarded the

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contract to administer the Section 8 Project Based Program for the United States Department of Housing and Urban Development making only four months of housing assistance payments in fiscal year 2001. In fiscal year 2002, the agency recognized a full year of revenue and paid a full year of housing assistance payments.

DEBT ACTIVITY

The agency's bonds and notes principal outstanding at June 30, 2002 totaled \$1,888.3 million and at June 30, 2001 totaled \$1,935.4 million. Total bonds and notes payable decreased \$47.1 million due primarily to retirement of debt. During the fiscal year, the agency issued debt totaling \$319.5 million, with activity arising from three bond issues totaling \$209.5 million and two draws under the single family mortgage note program totaling \$110.0 million. More detailed information about the agency's bonds and notes payable activity for the fiscal year is presented in Note 4 to the financial statements. Bonds and notes outstanding at June 30, 2002, and June 30, 2001, were as follows (expressed in thousands):

	<u>2002</u>	<u>2001</u>
Bonds payable	\$1,820,394	\$1,850,495
Notes payable	<u>67,909</u>	<u>84,865</u>
Total bonds and notes payable	<u>\$1,888,303</u>	<u>\$1,935,360</u>

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide the agency's stakeholders with a general overview of the agency's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Ted Fellman, CPA, Chief Financial Officer at (615) 741-1104 or via e-mail at Ted.fellman@state.tn.us.